

MONTANA BUSINESS QUARTERLY

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Adding Value to

MONTANA'S AGRI-FOOD INDUSTRY

INSIDE:

- 1998 MANSFIELD CONFERENCE
- NATURAL MEDICINES
- PROPERTY TAXES
- STRATEGIC PLANNING
- BBER: 50 YEARS OF SERVICE

BBER: *50 Years of Service*



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Cover photo by Larry Mayer.



Adding Value to Montana's Agri-Food Industry

by Fraser McLeay and Ron Newbury

For years, Montana farmers have shipped wheat to other states and foreign nations for value adding, refining, and processing. Now, they may have a new market right in Montana—Pasta Montana, located in Great Falls.

The pasta plant, which opened in the summer of 1997, processes durum wheat grown in the "golden triangle" area around Great Falls. From the specialty wheat, workers produce 30 varieties of Italian-style pasta including macaroni, spaghetti, vermicelli, fettuccine, lasagna, and much more. Pasta Montana contributes 70 jobs to the state's economy, provides an important local market to Montana wheat growers, and keeps millions of dollars in-state by adding value to a raw commodity.

Businesses like Pasta Montana, which add value to agricultural commodities, are slowly springing up throughout the state. But for the most part, the majority of Montana's agri-food products remain in the form of unprocessed commodities (Figures 1 and 2).

As a result, Montana experiences minimal economic gains from the state's natural resources, labor, and investment. In this respect, Montana could be compared to developing nations that extract materials from their mountains, water, and soil, and ship them elsewhere for enhancement.

While adding value to commodities can certainly give Montana's economy a boost in the short run, it cannot solve all the woes of the state's agricultural industry. Montana's agricultural

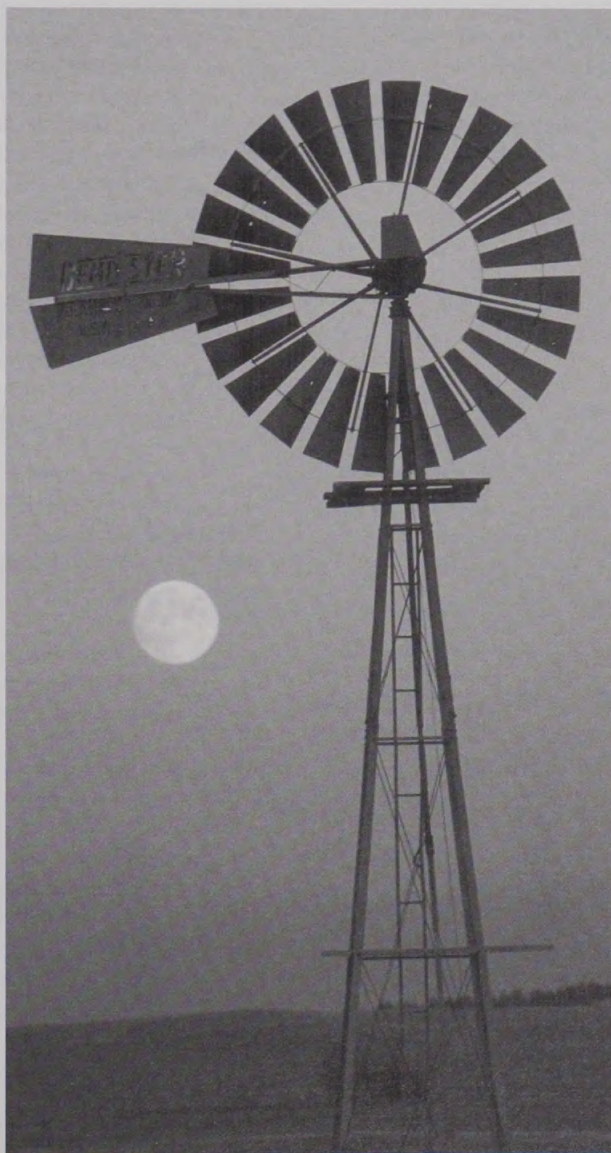
sector reigns as the state's primary economic engine, contributing almost \$2 billion toward the gross value of goods and services produced in the state. Yet, Montana's largest industry is troubled.

As in other states, Montana farmers struggle to make a living as farming costs rise and worldwide agricultural prices continue to drop.

Montana's heavy emphasis on raw, unprocessed commodities subjects farmers to the volatile and unpredictable prices of the world market. Increases in worldwide supply and changes due to disease, drought, exchange-rate fluctuations, and economic recessions occurring in areas such as Asia and Russia, all influence prices, ultimately affecting Montana farmers.

Fluctuating international commodity prices have hit Montana hard in the past several years. Between 1995 and 1996, Montana wheat exports increased from \$396 million to \$746 million, but decreased substantially when world wheat prices dropped in 1997.

One way to become less dependent on the world marketplace is to add value to unprocessed commodities. By selling, say, teriyaki beef jerky and parmesan basil bread—instead of unprocessed beef or wheat—Montana farmers and businesses are able to promote their product to specialty markets, making them less susceptible to changing



commodity prices. Comparisons between beef and sirloin steak prices, and wheat and bread prices, illustrate how much more volatile commodity prices are than processed food prices (Figures 3 and 4).

The advantage of producing specialty products is that they stand out as being different and unique and are, therefore, easier to market. Raw commodities, on the other hand, are difficult to differentiate. Montana wheat or beef is not all that different than Wyoming's—or Russia's, for that matter. Why pay more for Montana wheat than for Wyoming wheat if it's basically the same product? Adding value to goods and creating a unique product, though, opens new markets for Montanans and leads the state's agricultural sector in a positive direction.

To date, Montana's agri-food industry is lagging behind most of its competitors. Producers and processors in other parts of the United States and around the world are attempting to sell value-added processed foods rather than agricultural commodities. World trade in processed food has increased from 58 percent of the total trade in agricultural commodities and processed food in 1972 to 67 percent in 1993 (Figure 5). But in Montana, the value of exported processed food products remains at less than 1 percent of agricultural commodities.

This article discusses how Montana's agricultural industry stands to benefit from value-adding activities.

Montana companies have the potential to develop, process, brand, and promote regional themes such as "Rocky Mountain," "Cowboy," "Native American," or "Big Sky."

Market Trends and Opportunities

The idea of differentiating and adding value to agricultural produce is not new. Publications such as the Montana Department of Agriculture's *Montana Value Added Newsletter* have been useful in highlighting opportunities for value-adding activities. However, as illustrated in Figures 1 and 2, Montana's move from agricultural commodities to value-added products has not been overly successful.

To take advantage of these opportunities, Montanans need to understand market trends; identify state-of-the-art agriculture-related needs, products, and technologies from around the world; and develop new or improved strategies that provide tangible results. Paying attention to a number of key areas may increase Montanans' opportunities to differentiate and add value. These include:

- collecting and distributing international trade leads furnished by the U.S. government;
- identifying market trends and opportunities;
- taking a marketing rather than a production approach;
- differentiating through branding;
- learning from successful companies;
- working with government agencies and local support organizations to gain the greatest possible synergies;
- establishing a pilot project within the state, to identify the products, services, and technologies necessary to maximize economic returns for Montana.

Figure 1
Gross Value of Food and Agricultural Commodities
Montana, 1994-1996

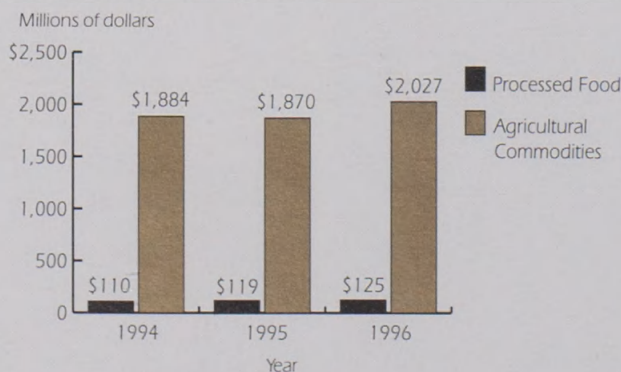
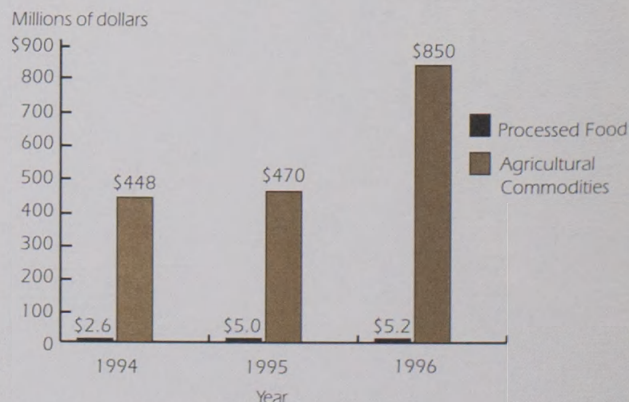


Figure 2
Montana Agricultural Exports
1994-1996



Sources: Montana Agricultural Statistics Service; Montana Census and Economic Information Center, Department of Commerce.

It is essential that Montana's suppliers and processors are aware of the trends and opportunities that exist in an increasingly changing and global business environment.

Global Growing Pains

In recent years, the world agri-food industry's move toward globalization has been driven by improved and cheaper forms of transportation, decreasing trade barriers, changing retailer and consumer tastes and demands for more exotic food varieties, and year-round supplies of seasonal produce (Figure 6). While globalization may seem like a tremendous opportunity, it has been a subject of controversy throughout Montana and the nation.

Montana and Canada, for example, are experiencing ongoing turmoil over trade issues. There is also a debate over the cost of lost export opportunities for U.S. farmers, resulting from the failure of U.S. Congress to grant the presidency fast-track trade negotiating authority. In previous years, the president had direct negotiating power. Now, all matters must go through Congress, slowing the process considerably.

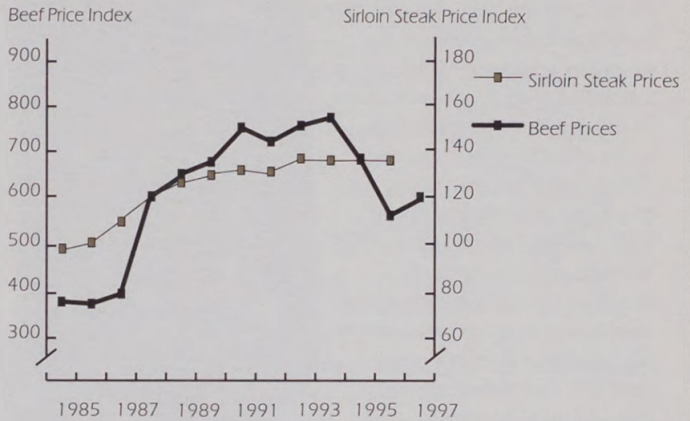
A number of agricultural commentators suggest that Montana should oppose free trade initiatives because they allegedly result in an uncontrolled flood of foreign products that lower prices in Montana and U.S. markets. In the short term, trade restrictions may improve commodity prices for some products by lowering the supply of these products in the United States. However, such isolationist sentiments are in conflict with recent World Trade Organization (WTO) agreements and are likely to result in countervailing trade restrictions that will reduce the potential to export Montana's major agricultural products, including wheat and beef.

In addition, trade restrictions might inhibit market access to the 96 percent of worldwide consumers who live outside the United States. The Organization for Economic Cooperation and Development (OECD) estimates suggest that the world's population will rise from 3.75 billion to over 8 billion by 2020. Most of this increase will come from developing countries, and higher levels of per capita income in most regions will provide substantial opportunities for value-added processors to satisfy the needs of emerging niche markets.

World population growth and rising income levels bode well for Montana agriculture, as there will be more mouths to feed in years to come. But by continuing to focus on selling commodities, Montana farmers and ranchers will always be competing directly with the world's lowest cost producers.

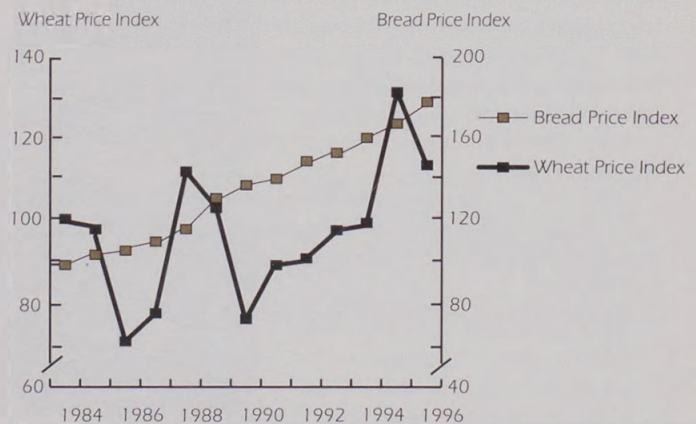
Trade issues are only part of the controversy revolving around globalization. Some critics believe that globalization has caused a shift in power from regional producers and processors to large global retailers that often buy food and food ingredients from other countries. These companies often promote their own label brands and have been accused of depressing commodity and labor markets by sending production out of the country and exploiting foreign workers.

Figure 3
Price Variation - Beef vs. Sirloin Steak



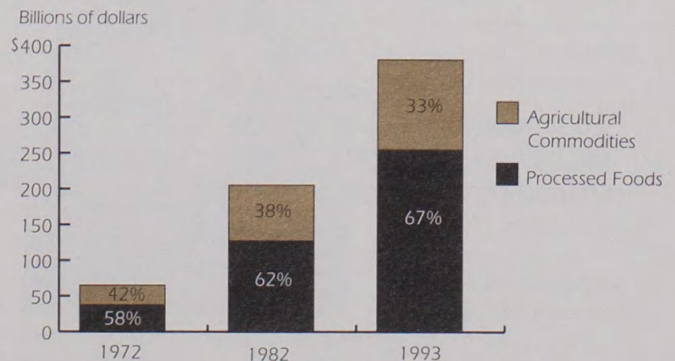
Source: Statistical Abstract of the United States, 1995.

Figure 4
Price Variation - Wheat vs. Bread



Source: Statistical Abstract of the United States, 1995.

Figure 5
World Trade in Processed Food and Agricultural Commodities



Source: Economic Research Service, U.S. Department of Agriculture.

Sometimes these criticisms are justified; however, many of these companies are American owned and offer suppliers potential access to almost unlimited market opportunities. In comparison to suppliers in many other parts of the world, American and Montana producers and processors are well equipped to provide global retailers with the high and consistent quality, healthy, safe products that many increasingly sophisticated global processors, retailers, and consumers now demand. U.S. companies are leaders in developing technologies to create new and higher quality products, processes, and end uses.

Montana companies might have an international competitive advantage because of the state's high standards for food quality and safety, access to state-of-the-art equipment that measures product nutrient composition and quality, and a sophisticated use of packaging and labeling technology. Montana's perceived pristine natural environment, the entrepreneurial skills of its inhabitants, and its potential to compete with overseas facilities appear to be relative strengths.

The state's producers are also in a good position to understand many of the trends that are occurring in global markets because in many instances, these trends have already taken place in the United States.

Instead of being intimidated by globalization, Montana's agri-



Cream of the West, Billings, Montana.

food industry should consider its strengths and work with global retailers and processors to gain market access and develop sustainable relationships in international markets.

Trendy Food Products

Throughout the world, rising income levels, aging populations, and shrinking family sizes are contributing to more varied lifestyles and increased demands for more diverse and higher quality products. There is a growing international awareness of exotic foods and foods originating from a specific country or region. This has led to in-

creased demands for foods with Mexican, Cajun, Northwest, and Pacific Rim themes.

Montana companies have the potential to develop, process, brand, and promote regional themes such as "Rocky Mountain," "Cowboy," "Native American," or "Big Sky."

Another theme food Montana businesses might consider is chilled convenience meals, which consumers perceive are of better quality than the frozen counterparts, quicker to prepare, and more restaurant-like in quality.

The market for such meals has increased significantly from 2.8 percent to 16.4 percent of retail food sales in Europe since 1994, and increases are also expected in developing markets as the proportion of food sold in supermarkets rises. In the future,

Figure 6
Market Trends

The Montana Agri-Food Industry Now

Commodity production

Limited processing/value adding

The Global Future

Lower trade barriers

More international retailers/processors

Higher quality, safer, healthier foods/raw materials

Exotic/regional theme foods

Biotechnology/genetic engineering applications

Organic foods

Lower/more transparent subsidies

improved packaging technology is likely to give chilled products longer shelf lives, therefore increasing the distance they can travel to market.

Even products that are considered standard in the United States, such as American style snack foods, are considered exotic in some markets. In Asia, potato chip consumption has increased by 35 percent over the past five years. However, chips have been modified to satisfy the tastes of different Asian consumers. Shrimp flavors are popular in South Korea, barbecue is popular in Malaysia. Capitalizing on this knowledge provides opportunities for large-scale processing and production.

Other areas of promise are in the fields of genetic engineering and biotechnology. Advances in these areas will allow the rapid design of agricultural products that meet precise product specifications.

For example, disease and pest resistance, as well as increased yields, can be engineered into plants and animals. However, many countries are averse to importing such genetically altered species, often using such objections as non-tariff barriers to trade. In the European Union (EU), regulations are currently being developed that will ban any genetically engineered foods from being marketed as organic. Any effort by Montana to further develop this industry for its export potential must carefully discern between those nations averse to and those receptive to such altered plants and animals, and respond by tailoring the effort to meet those concerns.

Organically grown food products are enjoying steady increases in demand in the United States and abroad. In the United States, retail sales of natural and organic products was estimated at \$15 billion in 1997, an increase of 15 percent from 1996. The number of certified organic farms and acres farmed has almost doubled from 1991 to 1995, even though U.S. farming has declined during this period.

A recent report from the U.S. Department of Agriculture estimates that by 2002, the EU organic beef market will be worth more than \$1 billion, the organic dairy market worth \$1.75 billion, and that approximately 15 percent of European

fruit and vegetable sales will be organic.

Montana is perfectly poised to take advantage of the growing popularity of organic food products. Much of the English-speaking world already views the state as pristine and natural, potentially evoking a certain confidence in products manufactured in Montana. Technologies that allow "traceability" of products to their state of origin could complement Montana's image, further distinguishing the state from its competitors.

Implementing more uniform standards to govern organic farming practices—and defining what constitutes an organic program and organic farming practices—may make it easier to exploit export markets. Consumers could be assured that if a food item came from Montana, and it was marked "organic," it was as pure as it could possibly be.

A natural extension to the state's Department of Commerce's promotional campaign "Made in Montana" could be "Organically Grown in Montana" or "Pure Montanan."

However because the supply of organically produced foods in other parts of the world is increasing, Montana farmers should closely monitor prices.

Marketing vs. Production

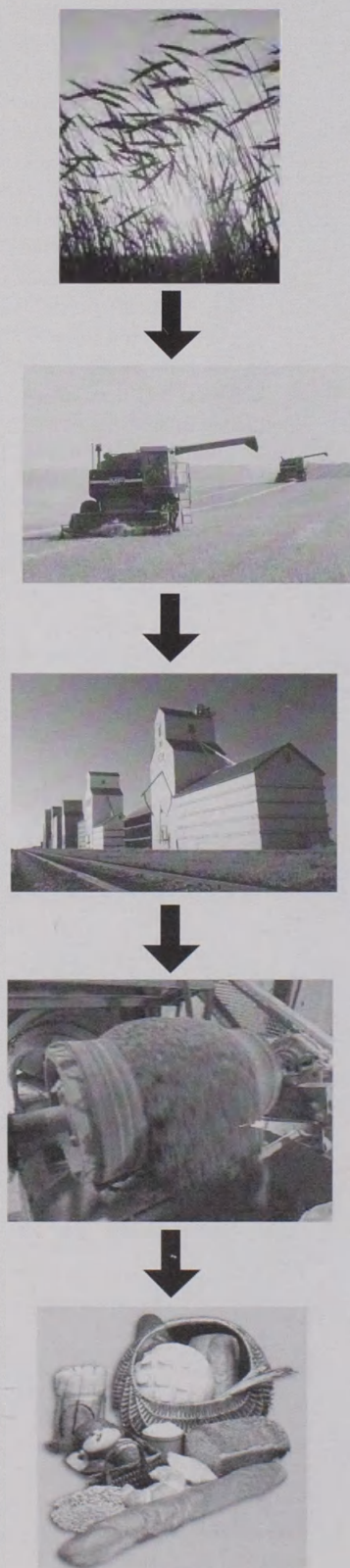
Traditionally, most of the agricultural sector has taken a production approach rather than a marketing approach to farming. Farmers have produced what they perceive grows well on their farm, or what their fathers or grandfathers grew. They have expected those further down the supply chain to sell produce by pushing undifferentiated agricultural commodities toward processors and final consumers (Figure 7).

Marketing involves producing what processors, retailers, or consumers actually want, and attempting to satisfy these demands by providing a better product or service than competitors—or the same product or service at a lower price. Some traditionalists have argued that farmers cannot



Products from the Huckleberry People, Missoula, Montana.

Figure 7
The Traditional Production Driven
Supply Chain



take a marketing approach because agriculture is different than other industries. The small scale of farms relative to processors—and the non-differentiable nature of many agricultural products—means farmers are price takers rather than setters. Environmental factors such as weather, pests, and diseases, as well as the time it takes to grow or fatten produce, cause discrepancies or time lags between actual and planned production. In addition, many agricultural products are perishable.

Despite these conditions, farmers or other members of the agri-food sector can still be market driven. The entire Montana agri-food sector would benefit from taking a marketing approach and attempting to understand and satisfy the demands of consumers. Rather than thinking of the sector as a supply chain where goods move from farm production to processor to retailer and consumer, it may be useful to consider it as a demand chain. Information relating to consumer preferences and market demands passes down, while produce flows up the demand chain (Figure 8).

For the demand chain to operate effectively and efficiently, it is important that market signals are clear and that information relating to consumer preferences is transferred to farmers.

Market Signals

A number of factors inhibit or distort market signals. Processors have been frequently criticized for being greedy and only passing on to farmers 6 percent of the price of a loaf of bread, 25 percent of a pound of choice beef, or 42 percent of a gallon of milk. But an examination of processors' profit margins indicates that this is not a common occurrence. Care should be taken however, to ensure quality and other premiums are passed onto farmers.

Subsidies have also distorted market signals and encouraged the inefficient production of agricultural commodities that are in relatively low demand. Although the reasons for paying subsidies are well documented, arguments that American farmers need subsidies to create a level playing field are likely to fall increasingly on deaf ears. Subsidies in other parts of the world are being reduced or cut.

Studies of agricultural reforms where subsidies have been removed have found that much of the value of subsidies was capitalized in high land and asset prices. They also contributed to the development of an inefficient and unresponsive agri-food sector.

In addition, the studies found that after a period of initial economic shock following subsidy removal in countries such as Australia and New Zealand, farm land prices and farm incomes have returned to pre-reform levels.

In countries without subsidies, farmers and processors are now rewarded for producing what the market demands, and can rapidly adapt and respond to changes in the global market place.

In the United States, the 1996 Freedom to Farm Act is exposing farmers to more free market forces by phasing out subsidies on a number of agricultural commodities.

Rather than subsidize Montana farmers to produce what they

always have, it may be more beneficial to provide incentives for them to become more market-oriented and add value. Such incentives would allow the industry to compete successfully and take advantage of the opportunities that exist in an increasingly changing and global trading environment.

Differentiating through Branding

To compete internationally, differentiating products is important. One way to differentiate produce grown and processed in Montana is to develop a branding campaign that capitalizes on Montana's pristine natural environment and ability to provide healthy, safe, raw agricultural materials and processed foods of a high and consistent quality. The Big Sky State's untouched mountains and natural scenery, wide-open spaces, and clear water attracts many people to visit and live. Producers and processors should capitalize on these assets.

Montana's natural environment provides avenues for the successful international promotion of the state's grown and processed agri-food products. For example, the word "Montana" means "mountain" in Spanish, and could be used to build on the positive image in the minds of the Latino community worldwide, providing a natural entrée to billions of potential customers for Montana agri-food products. The Montana Department of Commerce already runs a successful "Made in Montana" promotion campaign, using a trademark that appears to be particularly effective. Extending the trademark to more countries and products could help Montana companies differentiate through branding.

Learning from Successful Companies

In Montana, there are numerous examples of successful agri-food producers and processors including Wheat Montana, Pasta Montana, Cream of the West, The Huckleberry People, Silver Springs Water, Big Sky Brewing Company, and many others. (See the summer 1997 issue of the *Montana Business Quarterly* for a profile of the Huckleberry People.) Other businesses should examine the successes and mistakes of these Montana companies, as well as those of their international competitors.

In addition, businesses should consider working with other producers or processors to create unique Montana products and satisfy the needs of niche markets. For example, Montana mint growers might work with local chocolate manufacturers to produce a unique Montana mint chocolate, while farmers could work with tourist operators to market farm visits and agri-tourism. Finally, all businesses need to be aware of and willing to take advantage of the numerous support organizations that exist in Montana (see sidebar, page 11).

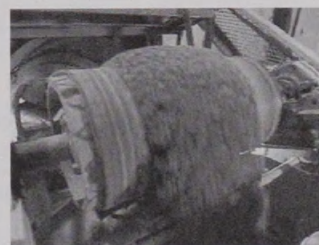
Strategies for the Future

Governor Marc Racicot's Task Force 2005 on Agriculture has brought together policy makers, academics, industry leaders, and representatives from supporting organizations to develop strategies designed to double the value of the state's agricultural industry by the year 2005. Such initiatives are timely, useful, and likely to result in a number of projects beneficial to Montana's agri-food industry.

Figure 8
A Market Driven Demand Chain

Product Flow

Information Flow





Research on the strengths and weaknesses of the Montana agri-food industry and opportunities and threats that exist in the global environment would be helpful to the Task Force 2005. Research activities should include:

- compiling and broadly disseminating a complete, detailed inventory of existing agricultural production and processing capabilities;
- identifying and measuring the demand for products that are not at present being produced in significant quantities, but could be grown or processed in Montana;
- identifying new technologies or techniques that are not currently being developed;
- creating guilds, marketing alliances, and other economic enhancement mechanisms that effectively target potential buyers and integrate and communicate with industry members;
- broadening the educational agenda so that it encourages farmers to understand the benefits of producing what the market wants, the advantages of adding value and differentiating, and the importance of responding to changing market signals;
- encouraging business managers to learn from successful companies through mentoring programs;
- surveying companies about factors they perceive as barriers to entering international markets; and
- determining the types of assistance that could help companies overcome barriers.

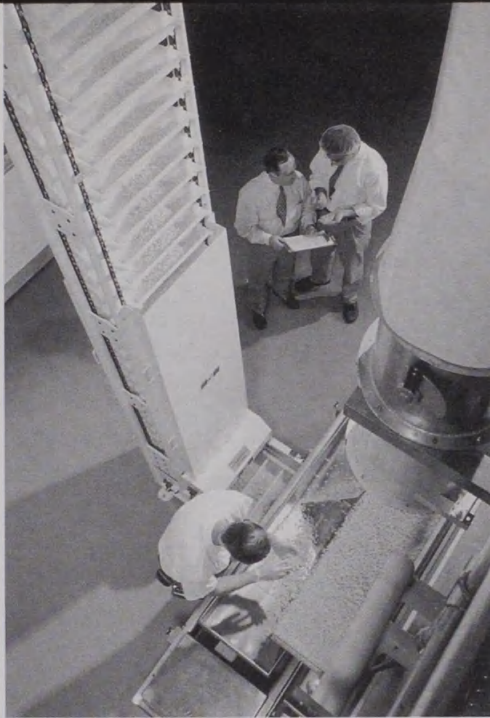
Conclusion

The Montana agri-food industry is operating in an ever-changing and global environment. The most recent OECD "Future of Food Report" summarizes many of the changes that are taking place and suggests that in the future differentiation will be the key word for food products. As a consequence, agricultural markets could shift increasingly from large commodity markets to a myriad of small niches. Farmers will have to adapt to new equipment and technologies, and develop closer ties to the food industry.

Montana farmers and businesses are well positioned to add value and compete on the upscale side of the product/service spectrum, moving away from primarily producing commodities and competing directly with low cost international commodity growers and processors. To move in this direction, all

Products from Montana Silver Springs,
Phillipsburg, Montana.

agri-food businesses need to work together, as well as with supporting organizations, and take a proactive rather than reactive approach. By developing strategies that match Montana's strengths with the opportunities that exist in the global market place, farmers and businesses will identify opportunities to add value to Montana's agricultural production capabilities. As a result, Montana will realize enhanced export, income, and job opportunities, because jobs derived from manufacturing and exporting are typically well above average in income potential.



Inside Pasta Montana, Great Falls, Montana.

Montana's ranking of 48th in exporting, ahead of only Hawaii and Wyoming, underscores how even modest success could generate significant gains in Montana's economic status. Adding value to agriculture is the key to the state's future. □

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**Are you interested in developing, producing,
processing, or marketing agri-food products?
These organizations may be able to help:**

Montana World Trade Center
<http://www.mwtc.org>

Western U.S. Agricultural Trade Association
<http://www.wusata.org>

Montana Department of Commerce
<http://commerce.state.mt.us>

Montana Department of Agriculture
<http://agr.state.mt.us>

Montana State University
<http://www.montana.edu>

The University of Montana-Missoula
<http://www.umt.edu>

Montana Trade Research Center
<http://www.trc.montana.edu>

DOC International Trade Information Center
<http://infoserv2.ita.doc.gov/tic.nsf>

International Food and Agribusiness Management
Association
<http://www.ifama.org>

Agri Surf
www.agrisurf.com

USDA Foreign Agricultural Service
www.fas.usda.gov

Fintrac Market Prices
www.fintrac.com/gain/prices

World Agricultural Information Centre
www.fao.org/waicent/waicente.html

United States Department of Agriculture
www.usda.gov

Natural Medicines

Will Federal Regulations Help or Hinder the Natural Products Industry?

by Marc S. Micozzi, M.D., Ph.D.

Editor's note: Marc Micozzi was a keynote speaker at the 1998 Mansfield Conference titled "The Healing Arts in American and Asian Cultures: A Conference on Living and Dying Well." This article was adapted from this lecture.

American consumers are rediscovering the appeal of natural medicines. From herbal remedies, to traditional Chinese medicine, to homeopathic treatments, people across the nation are spending their money on natural remedies to protect and enhance their health. "Rediscovered" is the key word because humans have used such products for millennia. Today, scientists, the media, and patients are interested in the possibility that a botanical may hold the key to curing such dreaded diseases as cancer or AIDS. However, without a focused, well-financed research program on natural medicines, and new federal regulations which treat these substances as medicines rather than foods, the full promise of these approaches may never be fulfilled.

As a physician, I believe that doctors are healers first. To help a client, they will use any ethical treatment that has been clinically proven to work. At present, these threshold criteria must eliminate many natural medicines because we don't have reliable information about their safety, efficacy, and formulations. For health care consumers, the situation may be even more frustrating. In many traditional societies, one or more members of a community may be experts on the properties and performance of natural medicines. But in contemporary America, consumers are on their own. Americans confront a bewildering variety of products that can differ significantly in their quality, usefulness, and sophistication, leaving consumers to sift through, sort out, and shift for themselves. Some might view this situation as purely the triumph of a free market, but from my perspective, this constitutes a potential health hazard that should concern everyone. From my perspective, the public health dimensions of the problem are important enough to justify a "crash program" of research. One complementary benefit of such an effort is that the natural products industry, which has received little help from the federal government to date, would ultimately have information that could help promote its products.

Natural vs. Pharmaceutical Remedies

The vast majority of natural remedies cannot be patented in the same way as products of the nation's pharmaceutical industry. This, in turn, provides little incentive for manufacturers to test and research their own products. It is also one reason that these remedies are regulated as foods rather than pharmaceuticals.

Critics contend that the industry is composed of agnostics—those who don't know and seemingly don't want to know the impact their products have on those who use them. But ignorance is not always bliss. When even a small number of deaths or adverse outcomes are attributed to natural remedies purchased over the counter in this relaxed regulatory environment, the damage to the industry's image is severe.

Given the unsettled state of affairs in the natural products industry, it is very important that patients inform their primary care physician about any natural products that they are taking on a regular basis. In the past, this was just the kind of information that patients withheld from their doctors. However, the *Archives of Family Medicine* recently published a study that indicates 50 percent of patients in a family practice clinic are now reporting the use of natural medicines to their physicians.

A brief look at lessons offered by both biology and history may be instructive. Evolutionary biology teaches us that organisms are designed to draw nourishment from the environment in which they grow. Plants serve human needs by providing oxygen to breathe, as well as foods and medicines. It is interesting to note that in some traditional societies, no distinction is made between plants eaten to provide nourishment and those consumed for medicinal purposes. This creates an interesting link with our own recently discovered principle that nutrition is an essential tool in the prevention and management of disease.

Even casual students of history are aware of the vital role that plants have played in the shaping of American history. Efforts to establish the Massachusetts Bay Colony would surely have failed if Native Americans had not introduced the newcomers to several varieties of edible plants. By the time of the American Revolution, Dr. Benjamin Rush was recommending the maintenance of "physic" gardens, which contained Native American and European folk remedies. Less well known is the role that plants played

during the Civil War. Once a Union blockade took hold in the latter days of the war, Confederate troops were low on pharmaceuticals and forced to rely on botanical remedies discovered by Native Americans.

When it comes to providing solid outcomes-based research on a variety of mainstream and complementary medical approaches, the U.S. Congress has made history in its own right in recent years. To generate such information, Congress created the Agency for Health Care Policy and Research (AHCPR), an agency of the U.S. Public Health Service. A recent study conducted by the agency concluded that for low back pain, spinal manipulation techniques associated with the practice of chiropractic provide more effective relief than other approaches such as drugs and surgery. And patients referred by physicians for spinal manual adjustment are more likely than not to receive appropriate care.

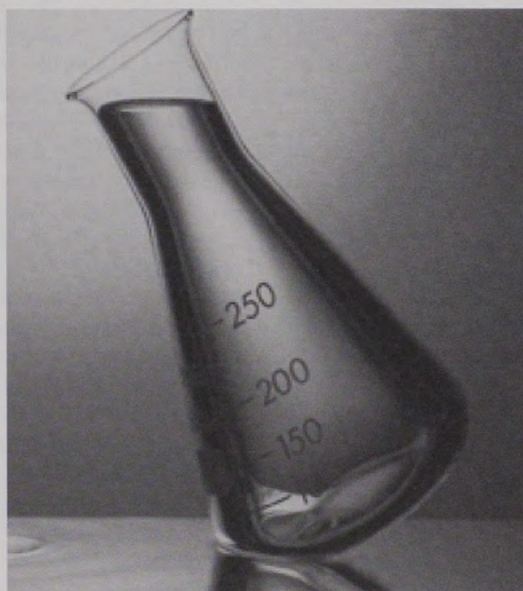
This study, and others like it, provides valuable information to physicians, patients, and medical consumers alike.

Research and Budget

As important as AHCPR's mission is, its budget is limited to \$160 million a year. Such study results from an agency with a dedicated but relatively small staff and a tight budget provide insight into what might be accomplished by the behemoth of the federal scientific establishment, the National Institutes of Health (NIH). Unfortunately, the NIH as a whole has not shown great enthusiasm for outcomes research associated with natural and complementary medicines. Congress has sought to spur the agency into action

by creating a federal Office of Alternative Medicine (OAM) under NIH auspices.

As most scientists know, no document is more political than a budget. To understand relations between NIH, OAM, and AHCPR, it helps to look at the numbers. The OAM has an annual budget of just \$12 million at a time when the NIH budget is \$12 billion. Such an amount does not go far when the goal is to conduct scientific research on a full range of complementary medicines. To view these figures from a different perspective, Americans spent \$17 billion on complementary-medicine products in 1996, according to Nutrition Business International, a trade association headquartered in San Diego. Such products should be the focus of studies conducted by scientists.



Americans spent \$17 billion on complementary medicines in 1996. Such products should be the focus of studies conducted by scientists.

In reality, we are allowing unwary American consumers to field-test these products for us. Whether one views this from the perspective of health policy or medical science, this approach is inadequate and inappropriate when it comes to the health of Americans. This challenge is serious enough to justify a joint

Some members of the natural products community cling to an outdated idea that all government officials have a hostile, adversarial attitude toward the community and complementary medicine in general.

effort by government, industry, universities, and think tanks to find better ways to provide information that is largely unavailable now.

One bright spot on the horizon is that a variety of federal agencies are beginning to recognize the need for this kind of research and have the capability to do it. To get a clearer sense of the bigger picture, U.S. Sen. Arlen Specter, R-Penn., has requested a federal governmentwide survey of all research activities concerning complementary or alternative medicine.

Since many experts agree that we need additional scientific research on the safety and efficacy of natural remedies, we can also save both time and money by reviewing credible scientific research that has been done abroad. Among the countries that have done such research are Germany, China, Nicaragua, and Vietnam. Germany has set the standard for scientific research for most of the last two centuries, and there is no credible reason for failing to investigate German research. In this instance, the German government appointed a regulatory commission known as Commission E and asked it to conduct scientific studies on hundreds of plants that are being used as medicines. These monographs have been completed and are

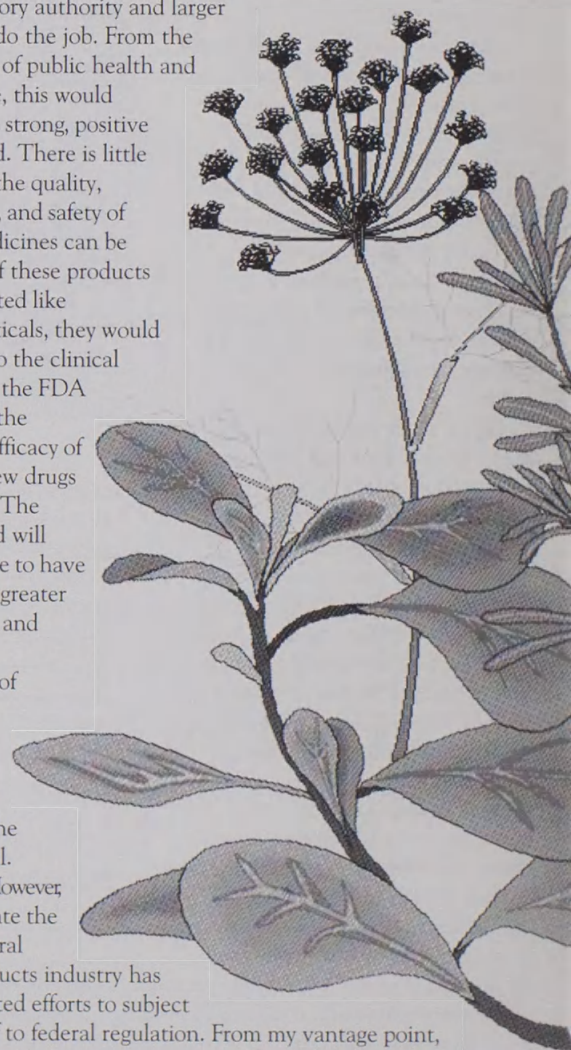
now being translated into English by the American Botanical Council, a nonprofit educational organization. This research may help to provide answers we have been seeking for years.

Federal Regulations

At this juncture, two federal agencies, the Food and Drug Administration (FDA) and the Federal Trade Commission (FTC) are trying to take a more discriminating approach to regulating the natural products industry. These agencies need more statutory authority and larger budgets to do the job. From the perspective of public health and patient care, this would constitute a strong, positive step forward. There is little doubt that the quality, consistency, and safety of natural medicines can be improved. If these products were regulated like pharmaceuticals, they would be subject to the clinical studies that the FDA uses to test the safety and efficacy of potential new drugs in humans. The greater good will ultimately be to have better data, greater acceptance, and increased integration of natural products into the health care system for the benefit of all.

However, to date the natural products industry has resisted efforts to subject itself to federal regulation. From my vantage point, this is both an unnecessary and self-defeating policy. Better federal regulation is the best thing that could happen to this industry. Here's why:

1. The economic growth that the industry has experienced in the last decade is limited compared to the growth it could experience if the efficacy of some of its products were confirmed by scientific evidence and accepted by the medical community. Many Americans who resist buying these products will begin to do so if they are recommended by physicians. It is useful to remember that many of the scientific studies done on these products have surprised many mainstream health



experts by beginning to validate the efficacy of natural products.

2. At present, the natural products industry may be compared with a bustling frontier town in 19th century America. Many residents of this community were decent law-abiding citizens, but a handful were dangerous characters whose behavior cast doubts on the town's reputation and the

desirability of the neighborhood. If many members of the natural products industry sell useful products that help customers, it is currently hard to distinguish between them and those industry members who sell useless products—or don't really know what they are

selling—and cheat customers, and damage the reputation of the industry as a whole. Raising standards will strengthen the industry, expand and improve opportunities, and benefit those who are most responsible.

3. As the recent experience of the organic food industry demonstrates, it is unlikely that the natural product industry can continue to avoid federal regulation indefinitely. It has the option of reaping the political and public benefits of attempting to work with the government on regulatory concerns, or eventually reaping the negative consequences that come from being forced to yield.

4. Some members of the natural products community cling to an outdated idea that all government officials have a hostile, adversarial attitude toward the community and complementary medicine in general. Some

even suggest that Americans need to be protected from the FDA, and that the agency cannot adjust to the fact that one-third of the population now uses herbal products on a regular basis. This view implies that the FDA—and perhaps the government as a whole—constitutes a kind of inflexible monolith, but historical evidence indicates otherwise. On issues ranging from acupuncture to spinal manual therapy, AHCPR, FDA, and the NIH have all shown that they will ultimately

respond to scientific evidence. In recent years, officials at both the FDA and the FTC have made a point of reaching out to responsible elements of the complementary medicine community in an effort to foster a continuing dialogue. Federal regulators and members of the natural medicine community will not agree on every issue, but the regulators have indicated a real desire to listen and to try to be fair and more discriminating.

Those who market natural products can best serve themselves and the public by truly standing behind the products they sell. Working with federal regulators is one way to help do so, but this also means investing some money (now spent on marketing) toward research. An industry which is estimated to generate \$17 billion a year should be able to justify doing so in light of the ultimate balance of economies and health risks and benefits.

Marc S. Micozzi, M.D., Ph.D., is the executive director of the College of Physicians of Philadelphia.



California 1978

Is it Time for Proposition

by Douglas J. Young

A booming real estate market, increasing home values, and sky-rocketing property taxes.... Is this Montana or California? Actually, it's California 20 years ago, but Montana's current property tax situation is similar in many ways to that of California in 1978.

Twenty years ago, California property taxes increased rapidly because of the flourishing real estate market, which saw residential values increasing by as much as 35 percent in a single year. Tax assessors in California were required by law to update property values every year, and they did so. As a result, property tax bills rose rapidly.

Frustrated with rising property taxes, Californians passed Proposition 13—a citizen initiative that immediately cut property taxes in half, and spawned a series of “tax revolt” measures in other states. Is something similar likely to occur in Montana? What did Proposition 13 actually do, and what were the consequences for California taxpayers and public services? Would Proposition 13 be a good idea for Montana?

California 1978: The Background to Proposition 13

The principal cause of Proposition 13 was rapidly rising property taxes, especially on residential property (O’Sullivan et. al., 1995). Rising property taxes were perceived to be a threat to homeowners on fixed incomes, particularly the elderly who could conceivably be forced out of their homes. Since the real estate boom affected mostly residential and commercial property, these properties paid an increasing share of the taxes, while taxes on agricultural and industrial property were smaller shares of the total.

In addition, many Californians were frustrated with what they perceived to be bureaucratic indifference on the part of government officials. Rising property values could have been offset by reductions in tax rates, so that tax bills would remain roughly constant. But little was done in this regard, despite the fact that the state government was running record surpluses. So taxpayers fumed.

Montana 1998:

13 in Big Sky Country?

School finance reform also contributed to the tax revolt (Fischel, 1989). A state Supreme Court decision in 1971 required school funding to be more equalized among districts. Thus, by the middle 1970s, property taxes were redistributed from high wealth districts to low wealth districts. With local school funding no longer a function of the local property tax, people were less willing to pay taxes.

Montana 1998: Are Conditions Ripe for Revolt?

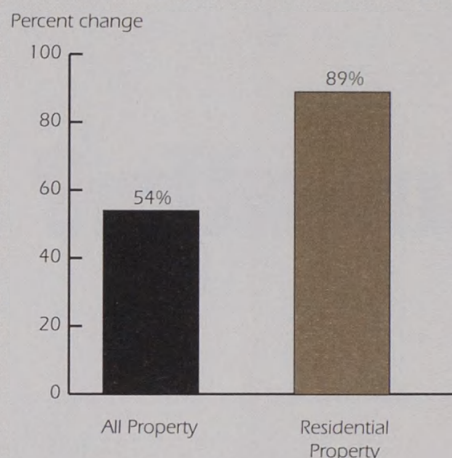
The property tax situation in Montana today is broadly similar to that in California 20 years ago, but there are also important differences.

First consider the similarities. Montana enacted school finance reform in the early 1990s, raising property tax rates and redistributing the funds among districts. Between 1989 and 1998, Montana property taxes on all types of property increased 54 percent. Taxes on residential property increased even faster—by 89 percent (Figure 1). This increase exceeded both inflation (36 percent) and the growth of personal income (70 percent). The residential share of all property taxes also increased—from 30 percent to 36 percent. Thus, residential property taxes have been rising faster than inflation and income growth, and the burden of property taxes is increasingly on residential property.

The property tax situation in Montana today is broadly similar to that in California 20 years ago, but there are also important differences.

While many similarities exist between California and Montana, there are also important differences. Rising property values have played much less of a role in Montana. Between 1987 and 1996, the statewide average reappraisal was only 11 percent—just over 1 percent a year (Young, 1996). In fact, appraised values declined in two-thirds of Montana counties. Most of the declines

Figure 1
Property Tax Growth
Montana, 1989-1998

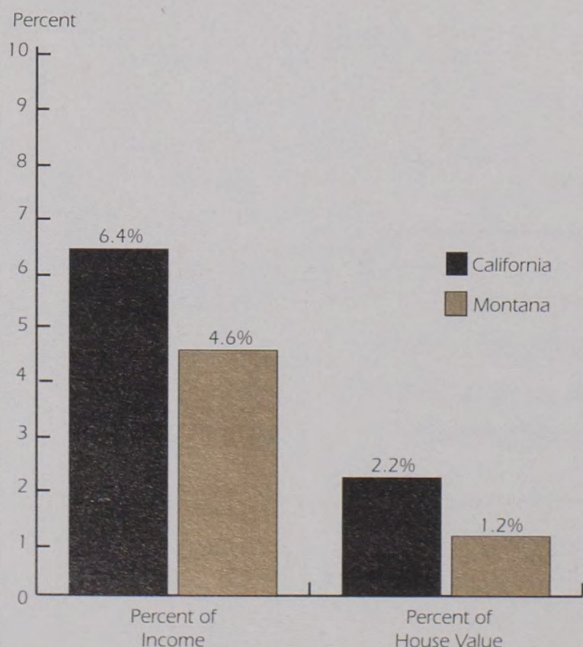


Source: Unpublished data from the Montana Department of Revenue.

occurred in Eastern Montana, which was hit hard by declining markets for agricultural products and natural resources. Cascade and Gallatin counties had the highest average reappraisals (38 percent), followed by Flathead (35 percent) and Lake (30 percent) counties. But these reappraisal rates just about matched

In 1996, the Montana Department of Revenue completed the first reappraisal of residential and commercial property in four years. The reappraisal indicated that, on average, market values had increased by about 40 percent since 1992. Reappraisals were higher in southern and western Montana where population was increasing, and lower in eastern Montana where population was decreasing.

Figure 2
Property Taxes
California 1978 vs. Montana 1997



Source: U.S. Bureau of the Census.

inflation, and trailed growth in income. In comparison, the average value of a home in California increased 150 percent in just four years, from 1974 to 1978 (Schrag, 1998).

Rising home values would have had a larger impact in the last few years, if the Montana Legislature had not blocked their use for tax purposes. In 1996, the Montana Department of Revenue completed the first reappraisal of residential and commercial property in four years. The reappraisal indicated that, on average, market values had increased by about 40 percent since 1992. Reappraisals were higher in southern and western Montana where population was increasing, and lower in eastern Montana where population was decreasing. The highest increase was in Sweet Grass County (86 percent), and the lowest was in McCone County (3 percent).

The 1997 Legislature decided to phase in the new valuations over 50 years, effectively preventing them from being implemented. As a consequence, property taxes in Montana are only loosely based on market value, even though the state constitution requires it. Indeed, the 1996 reappraisal found that some properties have declined in value since 1992, and their owners are paying taxes on value which no longer exists. In August, the Tenth Judicial District Court found this unconstitutional. If the court decision is upheld, Montana's property tax laws will have to be rewritten.

Montana's taxes in 1998 differ in other ways from California's in 1978. For one thing, Montana's property taxes are considerably lower than California's were at the time Proposition 13 was

passed. In 1978, California's property taxes amounted to 6.4 percent of personal income, while they are about 4.6 percent of personal income in Montana today. As a percentage of the market value of housing, California's taxes, 20 years ago, were 2.21 percent. In Montana, they are, on average, only about half of that amount, or 1.20 percent (Figure 2).

Overall taxes are lower in Montana as well. In 1978, state and local income, sales, and all other taxes equaled 15.8 percent of Californians' income. The comparable figure for Montana today is 11.6 percent of income (Figure 3). It's not surprising that Montana's total taxes are lower, since property taxes are lower, and Montana doesn't have a general sales tax. In 1978, California's statewide sales tax rate was 4.75 percent.

A final difference is the overall fiscal condition of state and local government. In fiscal year 1978, California's revenues exceeded its spending by 13 percent, and the state government was able to use its surpluses to "bail out" local governments when Proposition 13 passed. Montana's state and local governments generally run surpluses, as required by law, but they are much more modest in size. For example, the combined Montana state and local government surplus in 1995 was 3.5 percent of expenditure. Thus, state government is not in a position to provide substantial aid to local government if property taxes are sharply reduced.

What Did Proposition 13 Do?

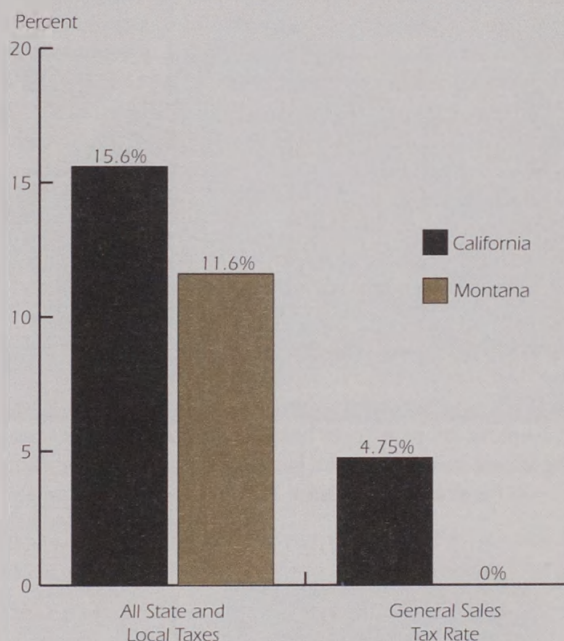
Proposition 13 had far reaching effects on taxing, spending, the provision of public services, and even the social fabric of California. The specific provisions of Proposition 13 were fairly simple. First, the taxable value of residential and commercial property was rolled back to its value in fiscal year 1975-76. (Agricultural property in California is taxed on productive value rather than its market

The most direct impact of Proposition 13 was to lower property taxes. The first year impact was a reduction of approximately 57 percent. By the middle 1990s, California property taxes remained half as high relative to income as they had been in 1978.

value, just as in Montana. Thus, the taxable value of agricultural property wasn't affected by Proposition 13.)

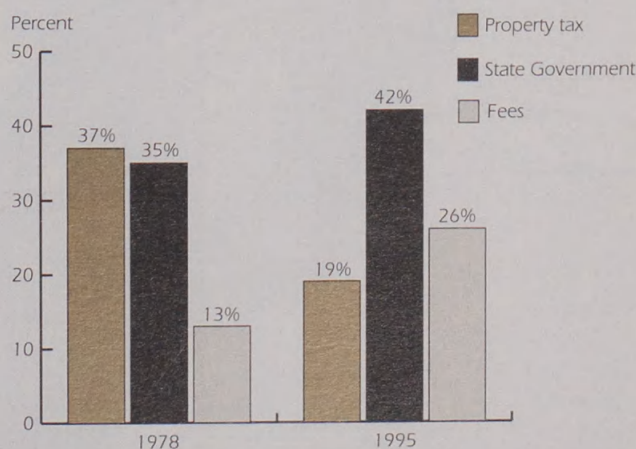
Second, increases in taxable value were limited to a maximum of 2 percent per year or the rate of inflation, whichever was less. In the late 1970s, inflation was approaching double-digit rates and home values were increasing even faster, so this provision reduced

Figure 3
Overall Taxes
California 1978 vs. Montana 1995



Source: U.S. Bureau of the Census.

Figure 4
Local Government Revenue
California, 1978 and 1995



Source: U.S. Bureau of the Census.

taxable values substantially. Third, taxable value would go to market value only when a change of ownership occurred. This provision, called acquisition value, meant that when a property was just purchased, its taxable value would equal what was paid for it. The fourth major provision of Proposition 13 was to limit all property taxes to 1 percent of the taxable value of the property.

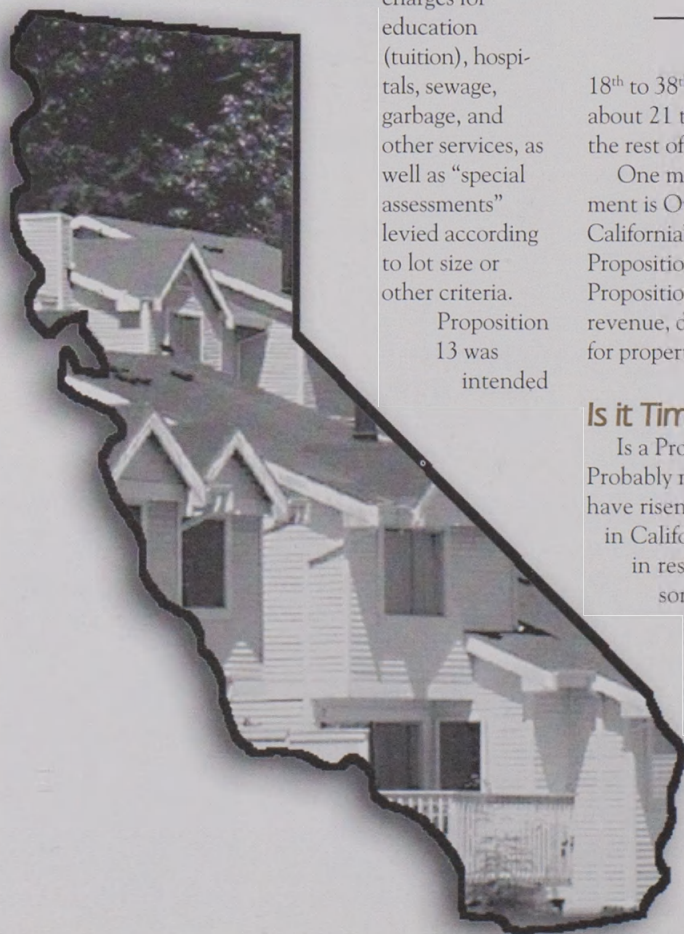
The most direct impact of Proposition 13 was to lower property taxes. The first year impact was a reduction of approximately 57 percent. By the middle 1990s, California property taxes remained half as high relative to income as they had been in 1978. Expressed as a percentage of market value, residential property taxes declined from over 2 percent to only about 0.5 percent.

In 1978, property taxes were the largest revenue source for California local governments, which include schools, cities and towns, counties, and a variety of other taxing districts. Almost 20 years later, property taxes are only half as important as a source of revenue, and account for only \$1 of every \$5 received. The decline in property taxes was partly replaced by transfers from the state government, which relies more heavily on income and sales taxes. But the largest source of growth has been fees, which have doubled in the years since passage of Proposition 13 (Figure 4).

Local government fees include

charges for education (tuition), hospitals, sewage, garbage, and other services, as well as "special assessments" levied according to lot size or other criteria.

Proposition 13 was intended



to restrain government taxing and spending. While other taxes and fees partially made up for reduced property taxes, there is evidence that overall spending and the total burden of paying for government were reduced. Elementary and secondary education—the biggest single item in state and local spending—was especially dependent on property taxes. In the two decades after passage of Proposition 13, California's school funding per student fell from

Proposition 13 was intended to restrain government taxing and spending. While other taxes and fees partially made up for reduced property taxes, there is evidence that overall spending and the total burden of paying for government were reduced.

18th to 38th among the states. Pupil-teacher ratios increased from about 21 to 24, while they were declining in Montana and most of the rest of the country.

One measure of the overall burden of state and local government is Own Source Revenue, which includes both taxes and fees. California's Own Source Revenue was exceptionally high before Proposition 13 passed, but is now about average. This suggests that Proposition 13 succeeded in its goal of restraining government revenue, despite the extensive substitution of fees and other taxes for property taxes.

Is it Time for Proposition 13 in Montana?

Is a Proposition 13-style "tax revolt" likely in Montana? Probably not, at least as things stand today. While property taxes have risen in the last 10 years, the rise has been much slower than in California 20 years ago. In particular, the dramatic increases in residential and commercial property values since 1992 in some parts of Montana have not so far resulted in skyrocketing property tax bills for homeowners.

If the recent court decision voiding the 50 year phase in of reappraisals stands, however, some change in Montana's property tax law seems likely. An interim legislative committee has studied the issue and presented several alternatives to be considered by the 1999 Legislature. One is a comprehensive tax reform package, which would significantly reduce property taxes and add a sales tax. Another option would implement the recent reappraisal, but offset higher values with a combination of reduced tax rates and homeowner exemptions.



Another option is acquisition value—valuing properties for tax purposes at the price paid when the property changes hands. Acquisition value

provides property tax stability. If a person buys a house for \$50,000, then the tax will still be based on \$50,000 five years later, even if the market value has doubled. Valuations are objective because the sale price is clearly defined, while many people disagree with the appraisals provided by government staffers. Perhaps most importantly, acquisition value reflects a person's ability to pay: If a person bought a house for \$50,000 they can probably afford the property taxes on it, but they may not be able to afford the property taxes if that same house is later valued at \$100,000.

Acquisition value changes how the property tax burden is distributed, in comparison with market value. Generally, those who move less frequently benefit at the expense of those who move more often. California studies indicate that taxes are shifted somewhat from older people to younger people, and from low-income people to high-income people, because of differences in how often these groups move.

California's Proposition 13 also limited property taxes to 1 percent of taxable value. A 1 percent limit in Montana would substantially cut property taxes for many people in the state, just as it did in California. But in other respects, the situations are very different. Property taxes are much lower in Montana than they were in California 20 years ago, the overall tax burden is lower, and the state has no significant surplus (nor any means of obtaining one)

to help pay for schools and local government services. In many areas of the state where tax rates are highest, citizens have voted for these taxes in order to pay for services they wanted.

Perhaps Montana could benefit from Proposition 6 ½ — acquisition value alone. □

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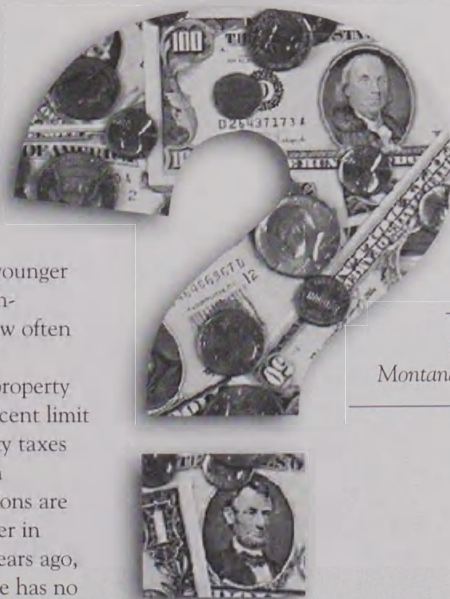
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Strategic Planning and the Mission Statement

Long-term Planning Critical for Montana Companies

by Paul Larson

Most high-level managers are involved in strategic planning, whether they realize it or not. Decisions about new products and markets, reactions to competitors, company financing, and other facets of business are strategic in nature. The manner in which a company makes those types of decisions is of utmost importance.

Some managers take a reactive approach to strategic planning. They wait for dropping sales, threatening competitors, demanding creditors, or emergencies to arise before taking action. This is strategic planning by default; competitors and external circumstances—not long-term intentions and plans—dictate a company's direction.

Granted, one sign of a successful company is adaptability. It is difficult to control every situation that may arise. Nonetheless, a company without a vision of where it is heading, and a flexible plan for getting there, usually gets nowhere. Organizations without long-term plans are usually disjointed: there is little teamwork and esprit de corps, and productivity is often low.

Committing to plan on a long-term basis is critical. When unforeseeable crises and opportunities arrive, one should resolve that they are not reason to throw out long-term approaches.

Rising Above the Masses

The following story about a military group that had been instructed to clear out the underbrush in a dense jungle illustrates the importance of strategic planning. A division of 1,000 men, all perfectly disciplined, was marching systematically through the jungle with machetes, completing the task to perfection. The men were in perfect unison, their path was planned exactly, and each man knew precisely what his job was. The project was perfectly managed. As they reached the completion point of their mission, one of the men broke ranks, climbed a tall tree,

and surveyed the forest. He cupped his hands and shouted down to the rest of the division, "Wrong forest!"

A company may be highly organized, but are its leaders cutting through the right forest? Strategic planning forces managers to critically analyze the organization's most basic decisions such as choosing which businesses to be in, what products to carry, how to compete, and at what rate to grow. No amount of "good management" can overcome poor basic strategic decisions.

Defining the Business

The starting point of strategic planning is defining what sort of business the company is involved in—and it is not as simple as it sounds.

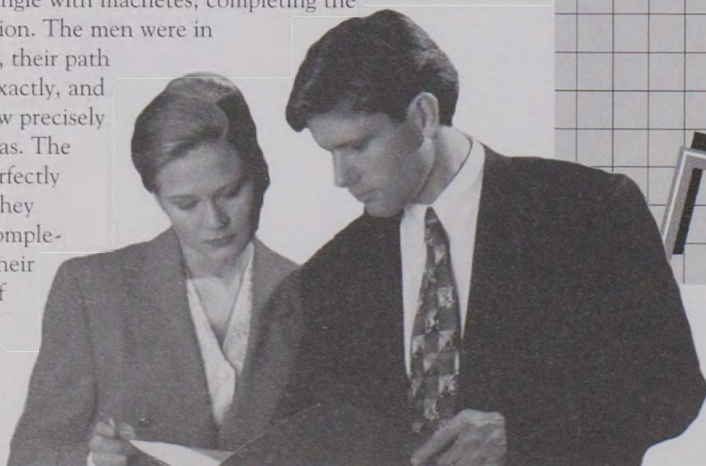
For the longest time, railroad companies believed they were in the railroad business. They concentrated on tracks and trains, loading railroad cars, and all those things that go along with being in the railroad business. For decades, the industry suffered poor financial performance.

Eventually, it occurred to some of these companies that they weren't really in the railroad business, they were in the freight

transportation business. The railroad companies realized that when customers have materials to be shipped somewhere, they don't usually care *how* they get delivered. The customers do care that the shipment gets there on schedule, without damage, and at the lowest cost. The railroad companies' emphasis on freight

transportation made no difference in the customers' minds.

By defining their business as freight



transportation, these firms made some rather dramatic changes. First, they quit relying so completely on the railroad. They incorporated other means of moving goods, including airplanes and ships. Then, they began to "piggyback" trucks on flatbed cars. They started to view their business more through the eye of customer needs, as opposed to focusing on the technology that they used. Financial performance of this entire industry increased dramatically after this fundamental change occurred.

Defining the business is usually included in the first phase of the strategic plan, defining the overall mission. The six steps in the strategic planning process are:

- define overall mission;
- set strategic objectives;
- perform SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats);
- formulate strategy;
- implement strategy;
- re-evaluate and reformulate strategy;

All of the steps are critical. Neglecting one or several of the steps in the outline puts an organization at great risk. The steps rarely occur in the exact sequence shown above. Strategic planning is usually an iterative process, skipping back and forth between steps. It is also an on-going process. Something is always changing, which makes re-evaluating and reformulating necessary. This article will focus on step one, the mission statement—the foundation of strategic planning.

The Mission Statement

The key to creating an effective mission statement is to describe what the business provides, not what it does. When writing a mission statement, one should try to see things from a customer's perspective instead of from an internal, technical view.

In the railroad company example, the customer sees freight being delivered, but not necessarily the railroad cars that are used. Telephone companies need to understand that they are in the communication business, and customers don't rightly care how the company makes it happen. The sidebar below shows the differences between what companies provide and what they do:

These examples illustrate two very different approaches to defining a business.

Customer Benefits

Wise marketers know that customers buy benefits, not products.

People don't buy shampoo, they buy the hope of shiny, tangle-free hair. They don't buy tires, they buy safety, fast cornering, and durability. Managers should think in terms of benefits while writing their mission statement.

Benefits can be categorized in two groups: solutions to problems or good feelings. It is usually easier to think in terms of solutions to problems than in terms of good feelings. Consider CPAs in public practice. What solutions to customers' problems do they provide? First, they can provide lower tax payments; high taxes are a problem to everybody. Second, they can provide an accurate tax return, which avoids significant IRS problems. Third, they can provide the service at a reasonable fee, which avoids the problem of absorbant costs. These are only some of the solutions to problems that CPAs provide.

Good feelings are another benefit that businesses can offer customers. Some CPAs wonder if they've ever given good feelings to customers. If so, the clients sure don't seem to appreciate it. But yes, CPAs do give good feelings. Security, reliability, and the absence of hassles are some of the good feelings that CPAs can deliver to clients.

While defining a business and writing a mission statement, keep in mind that solutions and good feelings better represent an organization than products and/or technologies.



<u>Company</u>	<u>What they do</u>	<u>What they provide</u>
ComputerLand	Sell and service computers	Office efficiency, productivity
Ford Motor Company	Build and sell cars	Transportation, value, reliability, status
Delta Airlines	Move people and cargo	Transportation, convenient and reliable arrival times, safety

The Basics of a Good Mission Statement

A good mission statement should:

1. Define what business the firm is in.
2. Make reference to major stakeholders.
3. Reflect a vision for the venture, and inspire people in the organization.

Four stakeholders that are commonly referenced in mission statements are: customers, owners, employees, and society. A mission statement should address the needs of all of the stakeholders. **Customers** will be interested in benefits and solutions to their problems.

Owners will want to hear about good rates of return, along with stability and growth. **Employees** will be looking for fair compensation, career opportunities, challenging responsibilities, and personal growth and development. **Societal** concerns include environmental conscientiousness, ethical management, and corporate citizenship.

Overall, one should try to convey a future vision for the organization that is exciting. People want to be on a train that is going somewhere and not just stuck on the tracks.

Overcoming Resistance

For many people, planning is about as much fun as doing their tax returns. It requires time and effort, it is difficult and imprecise, and it takes them away from getting something "productive" done. As a consequence, they prefer to "shoot from the hip," dealing with problems as they arise and making instinctual "gut feeling" decisions. After all, isn't that what has made America great—bold, decisive pioneers who aren't afraid to make decisions?

Maybe this attitude has made America great, but decision-making without a long-term vision is dangerous. Managers *must* insist that their organizations plan on a long-term basis. And if top management is not totally committed to strategic planning, the whole process will languish. Managers need to be incessant cheerleaders, encouraging people to stick their heads up out of the jungle and make sure they are in the right forest.

Another tactic is to get people involved in the strategic planning process. Remember: *no involvement, no commitment*. The best example that demonstrates the difference between involvement and commitment is the illustration of how a pig and a chicken approach a breakfast of ham and eggs. The chicken is involved; the pig is committed. If a person has been involved in the planning

Sample Mission Statement

Our Mission at Chemical Lime

To focus our long-term business efforts on high quality and unique limestone-based products. To lead our industry in technology and innovation.

To be involved at all levels with our customers in order to best recognize and meet their needs. To add value to our products by providing excellent service and quality, recognizing that our customers sign our paychecks.

To conduct our business with a high degree of ethics, a sense of competitive urgency, and decision-making based on facts. To evaluate people on their performance and to emphasize teamwork with open communication.

To have highly-motivated, competent people throughout the organization, offering them opportunities for personal growth and career advancement. To maintain a safe and healthy workplace.

To have an absolute commitment to achieve short-and long-term results acceptable to our shareholders and to protect the environment in which we operate.

process and has a little strategic input, they probably will not resist. People just don't like others laying plans on their doors without being involved.

Keep Reminding People of the Mission

In the hectic pace of daily commitments, people often forget why they do the things they do. This author was reminded of this fact when his son was six years old. Following is a story illustrating this point.

My wife and I had built a new house and had discussed how to landscape the property. I had told her, "It doesn't make much difference to me, other than I absolutely want to have a large open space on which our kids (mostly me) can play soccer and football."

She designed the landscaping, and I got my open space.

One day I was racing around the yard on my tractor mower and I noticed my son, Andrew, waving his arms madly at me. I stopped the tractor, turned down the throttle, and yelled, "What do you want?"

"Dad, let's play soccer!" he said.

"I don't have time right now! I've got to get the lawn mowed!" I hollered, as I revved the engine back up, threw the tractor into gear, and took off around the yard.

The lawn-mowing example is a classic case of losing sight of why you are doing something. People get so busy doing things that they forget what they are really trying to accomplish. People need to be constantly reminded of their purpose, or else they get swept away in details and veer away from their mission.

Post the company's mission statement in places where it will be read (perhaps the best place is on the wall inside the restroom stall where there is a captive audience). Keep reminding people of overall goals, so that they can break out of the routine of detail and be creative in ways that will help accomplish the company's mission. □

Paul Larson is a professor of management at the School of Business Administration at The University of Montana-Missoula and the author of Montana Entrepreneur's Guide.

BBER Celebrates *50 years* of Service

by Carolyn Schultz

*F*ifty years ago, most people weren't concerned about the world's diminishing resources and the United States' position in the global economy.

Back then, war, infectious disease, hunger, and the ominous atomic bomb were more prevalent issues for Americans. People didn't question the consequences of cutting down trees in old growth forests, disposing of oil in storm drains, or burning trash in their back yard.

Americans had yet to experience credit cards, the birth control pill, AIDS, domestic terrorism, personal computers, health insurance, and space exploration. Very few people invested in the stock market, watched a television, read about mental illness, or swallowed an antibiotic.

Indeed, the world has transformed over the past 50 years. Throughout these vast changes, The University of Montana's Bureau of Business and Economic Research has worked to help Montanans understand their state and make informed decisions in their personal and professional lives.

The Bureau Today

The Bureau—a research department within the School of Business


Montana's Economy: 1948 vs. 1998

- The population increased from 591,000 in 1950 to 879,372 in 1996.
- Average personal income increased from \$1,642 in 1948 to \$19,500 in 1997.
- In 1958, the average tourist party of three people spent \$22 per day and visited Montana for three weeks. Today, the average group of 2.7 people spends \$97 per day and stays for 4.3 days.
- Wood products industry sales jumped from \$56 million in 1948 to \$1.3 billion in 1997. The number of employees working in the industry nearly doubled from 6,000 workers in 1948 to 11,100 workers in 1997.
- Timber harvest increased from 560 million board feet in 1948 to 900 million board feet today.
- The death rate from heart disease dropped 25 percent from 321 deaths per 100,000 in 1970 to 242 deaths per 100,000 in 1996.

Administration at The University of Montana-Missoula—was founded 50 years ago in 1948 to monitor the state's economic and business conditions. The Bureau has expanded from a staff of four to a department of nine full-time employees and a dozen part-time workers.

Economists at the Bureau research and collect a wide variety of economic and industry data which assists individuals, businesses, and government agencies, across Montana. Several research programs within the Bureau study the statewide industries of forest products, health care, manufacturing, and oil and gas. These programs provide a wealth of information unavailable elsewhere. In fact, Bureau staff field approximately 6,000 requests each year from people seeking information about topics ranging from inflation rates to county demographics to business startup tips.

The Bureau's established survey research division regularly conducts the Montana Poll, using its state-of-the-art telephone interview facility to determine Montanans' attitudes and

Montana Population	542,000	591,000		679,000
Value of a 1998 Dollar	\$0.13	\$0.15		\$0.18
Montana Average Personal Income	\$1,642	\$1,657		\$2,085

1948 — 1950 — 1960

Late 1940s -
Williston Oil
Field opens



1956 - Waldorf
Corporation (now
Stone Container)
opens near Missoula



1968 - Glasgow
Air Force Base closes

opinions about a variety of economic and social issues. Through the Forest Products Research Program, the Bureau collects and analyzes the forest products industries of Montana, Wyoming, and Idaho and provides detailed information including timber yield, markets, production, and employment. The Health Care Industry Research Program analyzes markets, trends, industry structure, costs, and other high visibility topics in the health care industry.

Informing Montana

Informing Montanans about Bureau research has always been a top priority. In the early years, people read about economic and business trends in a four-page newsletter titled *Montana Business*. Today, the Bureau publishes the award-winning *Montana Business Quarterly*, a business journal featuring economic forecasts and analyses, business and economic trends, migration and population statistics, business profiles, and more.

In addition to its magazine, the Bureau distributes detailed information through its Economics Montana Program. This forecasting system provides projections of income, employment, and other economic data for the state, as well as forecasts of personal and nonfarm labor income for individual regions within Montana.

The Bureau also relays economic and industry information to Montanans through its strong relationship with media organizations across the state. Bureau researchers are often interviewed by print and broadcast reporters to provide context to local, national, and international business stories.

The Bureau's most visible public outreach effort, the Montana Economic Outlook Seminar, occurs early each year in nine cities across the state. Bureau economists and industry experts conduct the half-day seminar to reveal key economic and business forecasts

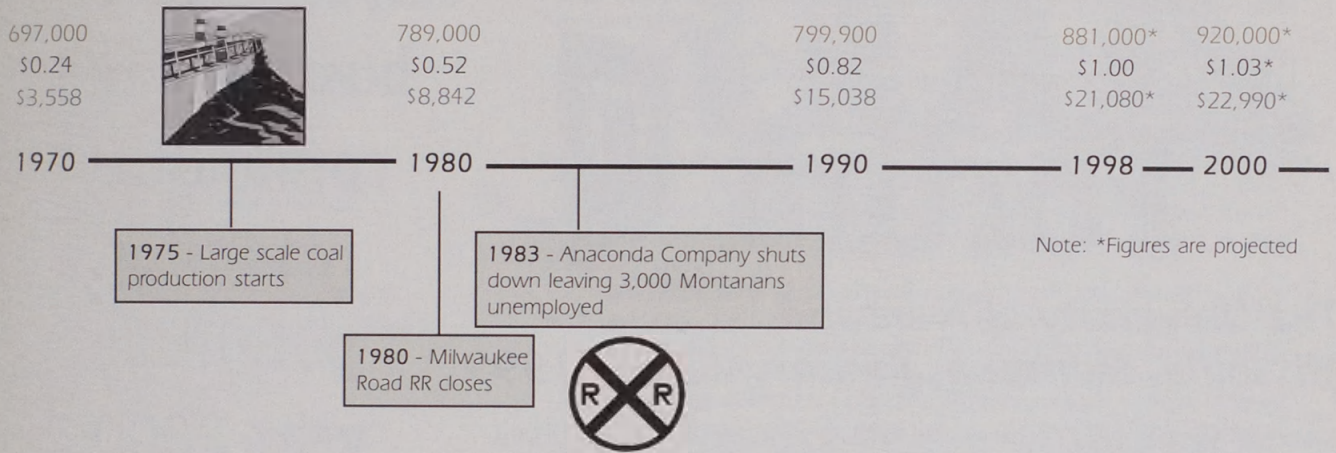
for the coming year. Business owners, community leaders, government employees, and interested individuals attend the annual seminars to find out what's in store during the coming year for their community, the entire state, and various industries.

The 1999 seminar series will begin January 26 in Helena and will also be held in Great Falls, Missoula, Billings, Bozeman, and Butte before concluding in Kalispell on February 10. In an effort to better serve Eastern Montana, the seminar will also be presented in Sidney on April 6 and Miles City on April 7. The theme for 1999 is "Work and Pay in Montana," and speakers will examine the types of jobs prevalent in Montana, as well as the corresponding wages.

Our Future

As the Bureau begins the next 50 years of service to Montana, its programs are changing to better accommodate the 21st century. Instead of focusing on election surveys, the Montana Poll has been revamped to derive new and vital information—not available elsewhere—about Montanans. For example, the Montana Poll now provides regular estimates of the number of Montanans with health care insurance coverage. The Bureau is also using the poll to estimate the number of Montanans that own computers and have Internet access.

The Bureau is expanding its Forest Products Industry Research Program in several areas. First, in cooperation with the USDA Forest Service's Inventory Monitoring and Evaluation Program in Ogden, Utah, the Bureau is developing detailed information regarding timber utilization for the entire Rocky Mountain region. Second, the forest products program is expanding to include research on the feasibility of implementing new forest management regimes, with particular emphasis on the economics of ecosystem restoration prescriptions in national forests.



Finally, the program's extensive wood products manufacturing research component now includes all Montana manufacturing industries. This recent expansion was made in cooperation with Montana Business Connections, the business assistance center in UM's School of Business Administration. The Bureau plans to develop an electronic information system to support, expand, and promote Montana's manufacturing industries.

The Bureau's Health Care Industry Research Program will also be changing as its research begins to focus on health care needs and costs for America's aging baby boomers as they enter the next century. The health care program will also examine managed care in Montana markets, as well as the rise of for-profit health care establishments in Montana and the Pacific Northwest.

As the Bureau enters the 21st century, its programs will continue to reflect the issues and industries important to the evolving world around us. Our staff is committed to providing Montanans with the latest information on business and economic trends. For more information about the Bureau, visit our web site at <http://www.bber.umt.edu> or contact us at (406) 243-5113. □

Carolyn Schultz is the Bureau's marketing director.



Year 2000 Forum



*The University of Montana
Missoula, Montana, January 13-15, 1999*

When the world ushers in the new millenium at midnight Dec. 31, 1999, many people fear we will find more things to agonize over than to celebrate about. Our dependence on computers in virtually every aspect of our public and private lives could very well create some degree of chaos as computers fail to recognize the seemingly innocuous 00 in the new date. How serious is this problem likely to be? Will it affect financial records, medical equipment, navigation aids, and personal as well as business computers? Are there solutions for these problems? These are some of the questions that will be explored in the Year 2000 Forum.

Wednesday Evening, January 13 • Keynote Address

Thursday, January 14 • Community Day

The View Outside Your Office Window

Seminars will include:

- Financial aspects of Year 2000 (Y2K)
- Technology and Y2K
- Grassroots community work

Luncheon:

"Y2K: Just the Facts, Ma'am (plus some speculation)" A panel of people who have studied the potential problems of Y2K will give an update.

Friday, January 15 • Technology Day

The View Inside Your Office Walls

Seminars will include:

- Embedded chip technology
- Software solutions
- Hardware fixes
- Networking and programming issues

Luncheon:

"Answering Your Questions" A panel of computer experts will answer your specific questions.

Are you,
your home,
business and
community
ready for
potential
year 2000
computer
problems?

VENDOR FAIR

The vendor fair will include vendors from a variety of businesses around Missoula. We guarantee the opportunity for all forum attendees to engage in discussion with vendors.

REGISTRATION INFORMATION

The cost of The University of Montana's Year 2000 Forum is \$25.00 for both days (lunch included) or \$15.00 a day (lunch included). The forum will be in the University Center. To register call (406) 243-5452 or *send email to:* helpdesk@selway.umat.edu. *or write:* Computer Information Services
The University of Montana
Missoula, MT 59812

Bureau of Business and Economic Research

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The Bureau of Business and Economic Research is the research and public service branch of The University of Montana's School of Business Administration.

The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting, forest products industry research, and survey research.

The Bureau's Economics Montana forecasting system is an effort to provide public and private decision makers with reliable forecasts and analysis. These state and local area forecasts are the focus of the annual series of Economic Outlook Seminars, cosponsored by the Bureau and respective Chambers of Commerce in Billings, Bozeman, Butte, Great Falls, Helena, Kalispell, and Missoula.

The Montana Poll, a quarterly public opinion poll, questions Montanans about their views on a variety of economic and social issues. The Bureau also conducts contract survey research and offers a random digit dialing program for survey organizations in need of random telephone samples.

The Forest Industries Data Collection System, a census of forest industry firms conducted approximately every five years, provides a large amount of information about raw materials sources and uses in Montana, Idaho, and Wyoming. It is funded by the U.S. Forest Service. The Montana Forest Industries Information System collects quarterly information on the employment and earnings of production workers in the Montana industry. It is cosponsored by the Montana Wood Products Association.

The Bureau's Natural Resource Industry Research Program enables the Bureau to continuously monitor Montana's natural resource industries and improve the public's knowledge of them and their roles in the state and local economies. This program provides easily accessible information about all the natural resource industries. Sponsors are the Plum Creek Timber Company, Montana Wood Products Association and American Forest Resource Alliance.

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